Deferred Retirement Option Program

Initial Consideration

Washington State Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

July 26, 2006

Brief Summary

- Background and History

- DROP Basics

- DROP Design Choices

- Opportunities and Challenges

Background and History

- **Deferred Retirement Option Program**

- 1981 East Baton Rouge Parish, Louisiana
  - Covered Police, Fire, and Public Employees
  - Followed by State Police and State Fire Fighters' plan (1984)

- Purpose - Employee Retention

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Background and History

- Few drops started in 1980

- Spread materially in mid-1990's and limited to public safety

- Emerging design/cost problems slowed use

DROP Basics

- Retirement eligible member voluntarily commits to the DROP

- Member continues to work
  - "Retire now, stop working later"

- Retirement benefit amount frozen
  (no more increases for service or salary)

DROP Basics

- While working, the monthly retirement benefits accumulate in a DROP account

- Lump sum (DROP account balance) paid to member after separation from employment

- Member begins receiving monthly benefit

DROP Design Choices

- Size of credits to DROP account

- Interest on DROP account

- Eligibility Requirements

- DROP window (end of eligibility)

- DROP period

- Do contributions stop (EE and/or ER)?

DROP Design Choices

- Are COLAs credit during DROP?

- Distribution options (lump sum or spread out)

- Provisions for working after DROP

- Death and disability benefits

- Ability to revoke decision

Opportunities

- Accomplish employer goals
  - Retain valuable employees, or
  - Encourage retirement

- Response to employee demand
  - Large lump sums are attractive benefit

- Increase employee retirement savings

Challenges

- Creating a cost-neutral plan
  - Members tend to desire more valuable plan
  - Predicting change in retirement behavior

- Members stop increasing benefit too soon

- Complex and costly administration

- Negative Publicity

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Questions?